

TOWARDS ELIMINATION OF SUBSIDIES IN FISHERIES

prepared for

Baltic Sea 2020 Foundation

by

Pavel Salz

Framian BV, The Netherlands

Contact: p.salz@framian.nl

December 2009

TABLE OF CONTENTS

1. SUMMARY.....	3
2. EU FISHERIES - INTRODUCTION.....	4
2.1. Stocks.....	4
2.2. Fishing fleets.....	4
2.3. EU support in historical perspective.....	4
3. CFP, SUBSIDIES AND SUSTAINABILITY.....	5
3.1. CFP objective.....	5
3.2. European Fisheries Fund.....	5
3.3. <i>De minimis</i> aid.....	6
3.4. Access to third countries resources.....	7
3.5. EAGF.....	8
3.6. ESF and EFRD.....	8
3.7. Costs of management.....	8
3.8. Market protection.....	9
3.9. Excise duties on fuel.....	9
3.10. Payment for access.....	9
4. MARKET REGULATION AND SUBSIDIES.....	10
4.1. Subsidies vs. sector income.....	10
4.2. Evaluation of EFF priority axis 1.....	11
4.3. Market as means for fisheries management.....	14
4.4. Towards an EU system of fishing rights.....	15
5. FUTURE OF SUBSIDIES.....	17
5.1. Future policy context and role of the market.....	17
5.2. Defining acceptable subsidies.....	18
5.3. Options for transition.....	19
5.4. Regionalized approach.....	21

1. SUMMARY

The total EU fisheries sector receives annually support of approximately 1.5 billion euro. In addition an estimated 0.5 billion euro is spent on management, research and enforcement. These expenses represent 17-18% of the total income generated by the total fisheries sector. Apart from the management costs, about 1 billion euro is destined for the support of the catching sector alone, which in its turn generates an annual income of about 4 billion euro.

The European Fisheries Fund is the most important instrument for support of the fisheries sector. Other instruments are the *de minimis* support, fisheries partnership agreements and price support. The present document reviews the various subsidies in relation to market distortions and sustainability. Particular attention is given to selected aspects regarding the Baltic Sea region.

The eight Baltic EU Member States account for 10-15% of EU fisheries sector, but receive almost one third of the EFF funds. The priorities of the Baltic region are significantly different from the EU average. While overall 26% of the EFF funds have been allocated to the EFF priority axis 1 and 12% to the axis 4, in the Baltic these percentages amount to 18% and 23% respectively. This means that relatively less attention is given to fleet reduction, while priority lies with regional development.

By far most support measures allowed under EFF are subject to various conditions to avoid an increase in fishing capacity or fishing effort. This is a significant improvement compared to FIFG prior to 2004 when support was even provided for construction of new vessels. Even at present, support provided directly or indirectly to individual companies (decommissioning, *de minimis* and access to third countries) affects level playing field and often distorts competition.

Such distortions are particularly created by the EFF priority axis 1, which aims at permanent and temporary cessation of fishing activities. This support improves the economic performance of the companies concerned, creating sometimes unjustified expectations about their profitability in the longer run. Consequently, it maintains indirectly vessels in operation beyond what would be strictly economically rational. The fundamental weakness of decommissioning schemes is that the policy cannot force individual vessel operators to stop fishing. Their interest for decommission sprouts forth from general economic conditions (e.g. fuel price) and is only indirectly related to the state of the stocks.

Measures like *de minimis* and access to third countries benefit directly and exclusively individual companies and therefore should be reviewed.

In order to phase support to fisheries it is proposed to distinguish four groups of measures, which require different approaches:

1. Support directly benefitting individual firms should be evaluated during the EFF Mid-term review in 2010/11 and abolished by the end of the current programming period (2013).
2. Promotion of developments of common interest should be strictly defined, with gradually decreasing contribution from public funds and increasing contribution from the industry during 2014-2020.
3. Fisheries management and creation of positive incentives are tasks to be carried out in close public-private partnership where rights and responsibilities of each stakeholder must be well defined.
4. Measures related to broader policy context, as regional and social development, should be transferred to EFRD, ESF or other (e.g. environmental) policies where they can be addressed accordingly.

More effective fisheries management can be achieved by making use of the existing market forces. With that aim it is recommended to introduce transferable user rights at national level, payments for access and finally allow EU-wide trade in these user rights. Payments for access will on one hand assure that benefits of the common resource are reaped by the MS, in the spirit of relative stability, and stimulate efficiency. Individual user rights will promote efficient division of the available fishing opportunities.

Within the basic framework of CFP and other EU legislation it seems possible to implement regionalized fisheries management approaches, under the evident condition that the MS concerned achieve the required consensus.

2. EU FISHERIES - INTRODUCTION

2.1. Stocks

Most fish stocks in the EU waters are fully exploited, if not overexploited. It is generally accepted that fish stocks could allow larger and more stable catches and greater benefits for the society if the intensity of exploitation would be reduced, allowing the size of the stocks to increase. At the same time it must be admitted that, due to the complexity of the marine ecosystem and far from complete scientific knowledge, it cannot be indicated with any level of precision how much and how fast the individual stocks would grow and how much larger the catches could be. This characterisation applies in principle to all EU stocks, independently of the extent to which they have been researched.

2.2. Fishing fleets

The catches in EU waters of fish for human consumption have decreased between 1995 and 2005 by approximately 10-15% to about 4.6 million tonnes¹. The size of the EU fishing fleets has decreased by 20% in number of vessels but only 10% in gross tonnage². This illustrates that the relative relation between catching capacity and catching opportunities has remained approximately constant. In some countries, reduction of the fleet size has been significantly higher than the EU average, evidently compensated by other MS where it was lower.

Long term data on economic performance of the fishing fleets, available at EU wide level since approximately 2000, but for some MS for several decades, shows that periods of profits and high investments are often followed by periods of losses, so that on average the fleets operate around the break-even level³ (i.e. zero profit). It must be stressed that, within such average, there are evidently highly successful operators as well as vessel owners who face significant losses. This is consistent with economic theory.

Table 1. Fleet composition by size in EU-27 and Baltic MS, 2007

Length class	EU-27		Baltic MS	
	No. vessels	1000 GT	No. vessels	1000 GT
0m-12m	59,052	155	6,655	21
12m-24m	11,679	482	1,331	61
24m-40m	2,861	538	473	92
Over 40m	535	651	87	119
Total	74,127	1,825	8,546	294

Source: JRC / STECF, Data collection framework 2007, excl. the distant fleet of Lithuania

2.3. EU support in historical perspective

The EU fisheries sector has benefited for many decades from national and EU support. The background of this support lies in the historical and political context. It was an extension of the Common Agricultural Policy and a combination of factors like pursuit of self-reliance in food production, protection of European producers against non-EU competitors and a strong industry lobby.

During the first decade of the Common Fisheries Policy (1983-1992), the two main policy pillars, namely the TACs and quota (conservation) policy and the structural policy were largely separated, pursuing to a significant degree contradictory objectives. On one hand, catches of most commercial stocks were constrained by TACs, but on the other hand significant financial support was made available for construction of new vessels. The required consistency and integration of these two policy pillars was only

¹Eurostat, Fish Yearbook 2007, Sum of catches in NE Atlantic and Mediterranean, excl. approx. 500,000 tonnes of Danish catch for fish meal.

² Eurostat, p.52-53

³ Annual Reports on Economic Performance of Selected European Fishing Fleets, Concerted Action on Economic Assessment of European Fishing Fleets, issues 1999-2005 and JRC/STECF, The 2009 Annual Economic Report on the European Fishing Fleet.

very gradually achieved in the period 1993-2002⁴, culminating in a full abolition of grants for new vessel construction in 2004⁵. The different MS still hold largely different views regarding the need for subsidies and the purpose which they should serve. Within the general EU legislation, each MS can set its own priorities, as illustrated below regarding EFF.

3. CFP, SUBSIDIES AND SUSTAINABILITY

This chapter provide a comprehensive summary of the main types of support provided to the EU fisheries sector in order to allow an evaluation of this support in relation to environmental and economic sustainability.

3.1. CFP objective

The objective of the CFP is formulated as follows⁶:

The Common Fisheries Policy shall ensure exploitation of living aquatic resources that provides sustainable economic, environmental and social conditions. For this purpose, the Community shall apply the precautionary approach in taking measures designed to protect and conserve living aquatic resources, to provide for their sustainable exploitation and to minimise the impact of fishing activities on marine ecosystems. It shall aim at a progressive implementation of an ecosystem-based approach to fisheries management. It shall aim to contribute to efficient fishing activities within an economically viable and competitive fisheries and aquaculture industry, providing a fair standard of living for those who depend on fishing activities and taking into account the interests of consumers.

It can be questioned which subsidies are and which are not consistent with the CFP objective. The main instrument for provision of support to the fisheries sector is the European Fisheries Fund. Furthermore, support can be provided through the *de minimis* aid and several other policies.

3.2. European Fisheries Fund

The European Fisheries Fund⁷ is one of the EU financial instruments, along with the European Social Fund, European Fund for Regional Development and EAGF for agriculture. It is in force for the period 2007-2013, providing a total of 3.8 bln euro of support from EU budget (in prices of 2004). The operational programmes of the Member States, based on prices of 2007-2008, foresee a total support of 4.2 bln euro from the EU budget, which will be matched by 2.8 bln euro from national budgets.

EFF is composed of 5 'priority axis', each aiming at specific areas of support:

1. measures for the adaptation of the Community fishing fleet;
2. aquaculture, inland fishing, processing and marketing of fishery and aquaculture products;
3. measures of common interest;
4. sustainable development of fisheries areas;
5. technical assistance;

The sub-division of the budgets available for each axis is presented in table 2. Each axis is sub-divided into specific measures, which are subject to various conditions. The conditions aim to avoid investments in additional fishing capacity and promote environmental sustainability. Within the framework of the EU regulations, it is up to the individual Member States to define their own priorities. Support of construction of new vessels, even if equal or larger capacity would be withdrawn without public aid, was abolished as of 2004⁸, as a result of the preparations of the CFP 2003-2012.

⁴ With Multi-Annual Guidance Plans imposing fleet reductions, although new constructions were still supported.

⁵ http://ec.europa.eu/fisheries/cfp/structural_measures/archives/arrangements_2000_2006_en.htm

⁶ EC Reg. 2371/2002.

⁷ Council Reg. 2792/1999 laying down the detailed rules and arrangements regarding Community structural assistance in the fisheries sector, and Council Reg. (EC) No 1263/1999 on the Financial Instrument for Fisheries Guidance.

⁸ Council Reg. (EC) No 2369/2002 of 20 December 2002 amending Reg. (EC) No 2792/1999.

It is interesting to notice that the Baltic countries⁹ receive a relatively large share of the EFF funds (appr. 32%), while their share in the value of production of the catching sector, fleet and employment is about 10-15% depending in the indicator. Poland receives 734 mln euro by far the highest benefit from EFF within the Baltic region (53% of the Baltic total). There is a significant difference in allocation of the resources between the Baltic and the EU-average. In the Baltic significantly more funds have been allocated to the axis 4 at the expense of axis 1.

Table 2. Assistance available to the fisheries sector under EFF, EU-27, 2007-2013, (2007-8 prices, million euro and %)

	EFF aid		National aid		Total	
Axis 1	1,073	25%	761	27%	1,834	26%
Axis 2	1,274	30%	839	30%	2,113	30%
Axis 3	1,169	28%	851	30%	2,019	29%
Axis 4	574	14%	267	10%	841	12%
Axis 5	145	3%	81	3%	227	3%
Total	4,235	100%	2,798	100%	7,033	100%

Source: national operational programmes

Table 3. Assistance available to the fisheries sector under EFF, Baltic countries, 2007-2013, (2007-8 prices, million euro and %)

	EFF aid		National aid		Total	
Axis 1	265	19%	111	17%	377	18%
Axis 2	373	27%	196	30%	569	28%
Axis 3	350	25%	187	28%	537	26%
Axis 4	334	24%	136	21%	470	23%
Axis 5	61	4%	28	4%	88	4%
Total	1,382	100%	659	100%	2,041	100%

Source: national operational programmes

Detailed evaluation of the variety of measures foreseen under EFF is beyond the scope of the present document. Axis 1 is evaluated in section 4.2.

3.3. *De minimis* aid

In principle the EC treaty does not allow provision of national support to national industries which would distort competition and consequently be incompatible with the common market. The Commission must be notified when such national policies are foreseen. Article 87 of the EC Treaty specifies which national policies are allowed. In all cases the Member States must notify the Commission of their intentions and must obtain an approval. A special arrangement has been created for agriculture, processing of agricultural products, (marine) transport and fisheries, the so called *de minimis* aid, which allows the Member States to provide financial support to firms in difficulty, up to a specified maximum, without further notification of the Commission. In 2007 the allowed *de minimis* aid to fisheries has been significantly increased, which makes it of relevance to this review of subsidies.

⁹ Denmark, Germany, Sweden, Finland, Poland, Estonia, Latvia and Lithuania. It is not possible to distinguish between activities in the Baltic Sea, Skagerrak / Kattegat and the North Sea.

At present the *de minimis* regulation¹⁰ allows a maximum support of 30,000 euro per firm for each three-year period during 2007-2013. This is a significant increase from the 3,000 euro which was allowed earlier. A recent EU commissioned study¹¹ has reviewed the consequences of *de minimis*, including further proposed adaptations.

The *de minimis* support is primarily destined for the catching sector. It was increased at the wake of the rapid rise in fuel prices. It allows the Member States to provide support to individual firms to the indicated maximum, while for each MS a ceiling for each 3-year period has been set. The sum of the national ceilings for one 3-year period amounts to almost 719 million euro. On annual basis this is almost equal to the total public resources destined for priority axis 1 under EFF (*De minimis* 240 mln euro, EFF 260 mln euro).

Two further comments must be made in relation to *de minimis*:

- The national ceilings have been based on 2.5% of the value of output of the total fisheries sector, including catching, fish processing and aquaculture. However, the catching sector is the exclusive benefactor.
- The fuel prices have decreased again since 2008 to historically relatively low levels, but the regulation has not been withdrawn. This shows that it is easier to create subsidies rather than to abolish them.

In 2008 the use of *de minimis* in most MS has been relatively modest, but the information is not available for all MS. This applies also to the Baltic MS, where Latvia made the most intensive use of this scheme in 2008, with payments of approx. 0.7 mln euro, i.e. 18% of its 3-year ceiling. Should adverse conditions arise, the MS will be in the position to provide assistance under this scheme without further consultation with the Commission.

The study points out that (p.4):

‘...the incentive of de minimis is to keep vessels in operation. This may be in direct competition with the objectives of the conservation and structural policy to reduce the size of the fleet and the fishing effort.’

3.4. Access to third countries resources

The EU pays approximately 150 mln euro annually as compensation to sixteen third countries for the access of EU fleets to their resources¹². Within this total payments to Mauritania, Morocco and Greenland account for 51%, 24% and 11% respectively.

The total EU external fleet is composed of 718 vessels¹³ (with 465,900 GT), most flying the flag of Spain (424), France (100), Portugal (73) and Italy (52). Should this fleet bear the entire costs of these agreements of 150 mln euro, this would imply an average annual payment per vessel of 208,000 euro or over 300 euro per GT. It can be roughly estimated¹⁴ that the EU payments for access to the resources of third countries represent 10-15% of the gross income generated by the fleets which benefit from these payments.

The distant fleet operating from the Baltic MS is composed of 39 relatively large vessels (98,000 GT).

¹⁰ EC Reg. 875/2007 on the application of Articles 87 and 88 of the EC Treaty to *de minimis* aid in the fisheries sector and amending Regulation (EC) No 1860/2004

¹¹ Framian, Economic analysis of raising *de minimis* aid for fisheries, (MARE/2008/12), Report to EC, January 2009

¹² http://ec.europa.eu/fisheries/cfp/external_relations/bilateral_agreements_en.htm, accounting for a 4-year average payment to Mauritania.

¹³ Study on the European external fleet, (FISH/2006/02), Final Report, January 2008, p.3

¹⁴ Estimate is based on the share of total landings.

3.5. EAGF

EAGF (European Agricultural Guarantee Fund) funds two areas of support – intervention in fishery products (part of the Common Organization of the Market Policy - COM) and fisheries programme for the outermost regions¹⁵.

COM policy¹⁶ specifies conditions for the recognition of professional organizations in charge of implementation of COM and two types of market intervention measures: withdrawals and carry-over aid. These interventions are applicable to a limited number of species and products, e.g. plaice, cod, sardine and herring. The regulation is rather complex in practice. In principle it guarantees minimum prices for these products when the auction price falls below a certain level. The fish can be withdrawn from the market and the producer receives a certain compensation¹⁷. In case that the fish could be sold at a later stage, the producer organization can put it in cold storage and receive carry-over aid to cover part of the storage costs.

The expenditure for intervention measures amounted in 2008 to about 15 mln Euro, a substantial increase from about 10 mln euro in 2007. In the years 2001-2006, the average expenditure in this area amounted to about 13 mln euro¹⁸. The Baltic MS are only very minor beneficiaries of this scheme, with the exception of Denmark. The new MS did not receive almost any support from EAGF since their accession¹⁹.

Programme for outermost regions spent in 2008 almost 37 mln euro, a very substantial increase from 14.5 mln euro in 2007.

3.6. ESF and EFRD

ESF, EFRD and the Cohesion Fund have a total budget allocation of 308 bln euro for the period 2007-2013 (in 2004 prices)²⁰. The likelihood that these funds would support fisheries related activities is relatively small. According to the Financial Regulation²¹ a single domain of action should not be eligible for funding under two programmes. Furthermore, as they do not support individual companies and strive to promote environmental sustainability if relevant, the support under these programmes is probably less controversial.

3.7. Costs of management

In the EU national authorities bear all costs of fisheries management, control, enforcement and research. OECD²² estimated that in 2003 13 main EU fishing nations spent approximately 500 mln US\$ (440 mln euro) on management, research and enforcement. To which extent these costs should be reclaimed on the fisheries sector should be viewed within a broader context of the role and tasks of governments in relation to environmental protection, creation of favourable conditions to promote economic activities and broader political goals to protect specific social groups. If the management costs would be proportionate to the economic importance of the fisheries sector in terms of income creation, the fisheries management costs in the Baltic region could be estimated at some 50 mln euro.

¹⁵ SEC(2009)1368 PART II, Annexes to the Commission staff working document accompanying the 2nd financial report from the Commission to the European Parliament and the Council on the European Agricultural Guarantee Fund – 2008 financial year, Brussels, 21.10.2009

¹⁶ EC Reg. 104/2009 On the common organization of the markets in fishery and aquaculture products

¹⁷ E.g. EC Reg. No 1212/2009 of 30 November 2009 fixing for the 2010 fishing year the guide prices and Community producer prices for certain fishery products pursuant to Regulation (EC) No 104/2000.

¹⁸ Ernst & Young, Evaluation of the Common Organisation of the Markets in Fishery and Aquaculture Products, Executive summary, December 2008, Report to EC

¹⁹ Ernst & Young, Évaluation de l'organisation Commune de Marché des produits de la pêche et de l'aquaculture, Rapport final a la CE, 2009, p. 96

²⁰ http://europa.eu/legislation_summaries/agriculture/general_framework/g24231_en.htm

²¹ Reg. (EC) 1605/2002, art. 21

²² OECD, Financial support to fisheries – Implications for sustainable development, Paris, 2006, p. 30.,

3.8. Market protection

The EU maintains a system of trade barriers (tariffs and quota)²³ to protect specific groups of producers. Imports of certain products from non-EU countries are subject to tariffs, e.g. tuna up to 24%, shrimp up to 20% and sardines up to 12%²⁴. However, these tariffs may be lower, when the imports originate from designated (usually developing ACP) countries or when the imports take place within a designated period of the year and remain under a certain maximum (quota) – an extremely complex system.

Tariffs on processed products are on average higher than the tariffs on unprocessed raw material. Such measures protect specific segments of the EU fish processing industry (e.g. tuna and sardine canning) from foreign imports of processed products, while allowing them to make use of cheap imported raw material. At the same time this may lead to lower prices of the EU landings for some species.

3.9. Excise duties on fuel

In relation to support measures to the EU fishing industry, the exemption from taxes on fuel is often mentioned. For the sake of completeness of this overview it is necessary to qualify this claim and put it in a proper context.

The EU fishing fleets is not subject to excise duties on fuel on the basis of regulations regarding excise duties in general²⁵. Article 14.1c of the Directive 96/2003 specifies that exemption can be provided to ‘...energy products supplied for use as fuel for the purposes of navigation within Community waters (including fishing)...’. Furthermore this exemption is extended to international waters on the basis of international agreements, partly based on IMO FAL Convention²⁶.

This international legal context is aimed at creation of a level playing field for sectors which rely on international bunkering services. Fisheries is only a very small part of the total. The exemption from excise duties is not a measure to assist fisheries in particular. Abolition of this exemption goes beyond the scope of the CFP. Therefore, this exemption is not further considered in the analysis of the subsidies in the following chapters.

3.10. Payment for access

It could be argued, as proposed by FAO and OECD, that lack of payment for access to a natural resource is a subsidy, which benefits the fisheries sector in general and the relatively less efficient producers in particular. From the perspective of the society at large, it is not evident why a relatively small privileged group (i.e. fishing sector) should benefit from exclusive access to a common resource without payment of royalties. Quotation from a publication by OECD is illustrative in this respect²⁷:

‘... free access to resources can be considered to be a financial support under a broad definition of the term. Indeed, the fishing industry stands in stark contrast to most other natural resource sectors where charging for access to publicly owned resources is the norm...’

²³ Council Regulation (EC) No 1062/2009 of 26 October 2009 opening and providing for the management of autonomous Community tariff quotas for certain fishery products for the period 2010 to 2012 and repealing Regulation (EC) No 824/2007.

²⁴ R. Beukers, Market research in fisheries, presentation at a symposium in The Hague, 26.11.2009

²⁵ Council Directive 92/12/EEC of 25 February 1992 on the general arrangements for products subject to excise duty and on the holding, movement and monitoring of such products; and Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity. (exempts also air traffic)

²⁶ IMO Convention on Facilitation of International Maritime Traffic.

²⁷ OECD, Financial Support to Fisheries, p.25

4. MARKET REGULATION AND SUBSIDIES

This chapter discusses subsidies and their in relation to regulation through the market. Section 4.1 compares the subsidies to the income generated by the sector to show how much of the income of the sector is in fact subsidized. Section 4.2 assess the economic and biological impact of EFF priority axis 1 to determine whether the created incentives can be expected to produce the desired outcome. Section 4.3 and 4.4 turn to alternative options (i.e. other than subsidies) of exploiting the market forces to enhance the effectiveness of the future CFP. Introduction of payments for access and an EU system of fishing rights lies at the heart of the argument there.

4.1. Subsidies vs. sector income

Taxes and subsidies are generally accepted policy measures to promote or discourage certain developments or activities. Fisheries subsidies have come under criticism by FAO²⁸ and OECD²⁹ in the context of fisheries management, but also in the context of WTO trade negotiations³⁰. In the EU the total potential annual financial transfers to the fisheries sector are estimated in table 4.

Table 4. Review of potential annual financial transfers to fisheries in the EU*
(EU and national, in mln euro)

Policy / measure	Average annual budget (mln euro)	Comment
EFF	1,000	Average budget 2007-2013
<i>De minimis</i>	240	Average budget 2007-2013
EAGF	52	Expenses 2008
EFRD and ESF	--	Uncertain
Third countries	150	
Management	500	Estimation based on OECD
Market protection	--	
Payment for access	--	
Total	1,942	

*not all budgets are necessarily spent.

Table 5. Employment and income generated by the fisheries sector in EU-27 in 2005

	EU-27		Baltic MS	
	Gross value added* (mln euro)	Employment (1000 persons)	Gross value added* (mln euro)	Employment (1000 persons)
Catching sector	3,933	187	407	18
Fish processing and trade	4,637	138	1,095	50
Aquaculture	1,643	63	168	10
Ancillary activities	745	19	109	4
Total	10,977	407	1,779	82

Source: Framian / Poseidon, Regional dependency on fisheries, Report to the European Parliament IP/B/PECH/ST/IC/2006-198, July 2007

*Gross value added is the sum of remuneration of labour (wages) and capital (profit) and capital costs (depreciation and interest).

The amount of 2 billion euro may be confronted with the main indicators of the EU- fisheries sector, presented in table 5. It follows that financial transfers to the sector amount to 17-18% of the income generated by it. Even when it is recognized that a substantial part of these transfers is not directly related to the income of the fisheries sector, the national *de minimis* ceilings are not fully used and that management costs could be considered as a public task, EFF and access to third countries alone represent 10% of the income of the fisheries sector. The three schemes most directly affecting the catching sector

²⁸ FAO, Report of the Expert Consultation on Identifying, Assessing and Reporting on Subsidies in the Fishing Industry. Rome, 3-6 December 2002, FAO Fisheries Report. No. 698. Rome, FAO. 2003. 81p.

²⁹ OECD, Financial Support to Fisheries

³⁰ World Bank, Policy Research Working Paper 5135, Conclude Doha - It Matters!, November 2009

(EFF axis 1, *de minimis* and access to third countries) amount to a potential annual support of 652 mln euro, i.e. about 16% of the income generated by this sub-sector or 3,500 euro per employed per year.

In general it can be concluded that, even if significant amount of funds would be devoted to measures to stimulate desirable behaviour and environmental protection, these measures imply significant public expenses. It seems important to question how these policy incentives compare to incentives of the market itself and whether the market forces could be exploited to achieve similar results at lower public costs.

4.2. Evaluation of EFF priority axis 1

The measures foreseen under the EFF priority axis 1 are mostly direct financial transfers to the catching sector and consequently they improve directly its economic performance and viability, particularly in the short term. At the same time some of the measures are designed to facilitate short or even long term reduction of fishing effort. Table 6 evaluates the main measures in terms of impact on economic performance and stocks.

Table 6. Summary of impacts of measures under priority axis 1

Impact on economic performance	Impact on stocks
<i>Permanent cessation / decommissioning</i>	
<p>Positive effect: Leads to reduction of the size of the fleet in short and long term, by the nominal 'value' of the license (in GT or kW).</p> <p>Negative effect: Fundamentally distorts the market for second-hand fishing vessels, by setting a bottom in the price level (equal to the decommissioning premium). Consequently, the fishing firms may have higher assets on their balance sheets than would be justified on the basis of market prices and become relatively more credit-worthy. Determination of the scrapping premium is difficult. Low premium will not lead to the desired effect. High premium leads to waste of public resources. In case of multi-vessel firms, scrapping premium reinforces their capital position, at least in short and medium run.</p> <p>Comment: Major problem is that it is not possible to force vessel owners to scrap their vessels. Scrapping schemes are required when there is a structural imbalance between fleet capacity and fishing opportunities. However, fishing firms are interested to scrap at times of economic hardship, which is not only dependent on state of stocks, but also on prices of fish and inputs (e.g. fuel). Evidence shows that previous programmes (MAGPs and FIFG) have not achieved a significantly better balance between catching capacity and fishing opportunities. Likelihood of new decommissioning schemes in the future keeps vessels in operation to the limit of their financial possibilities (and the 'patience' of their banks). History of political decision making also shows that there is nothing like 'one-off final scrapping scheme'. Therefore it could be claimed that scrapping schemes prolong the activity of economically weak fishing companies.</p>	<p>Permanent cessation is assumed to reduce fishing effort. However, pressure on specific stocks becomes only lower if the fleet exploiting those stocks is well defined and access from other fleets is not possible. This is seldom the case. The EU fleet policy imposes ceilings on national fleets, but not fleets active in specific fisheries (i.e. combinations of stocks).</p> <p>Furthermore, the catches are usually constrained by TACs (with the exception of the Mediterranean). If the TACs would be fully enforced, than the net effect of any permanent cessation on fishing effort and / or mortality would be zero. The need for permanent cessation arises, at least partly, from the inability to enforce TACs fully.</p>

Table 6. continued

Impact on economic performance	Impact on stocks
<i>Temporary cessation</i>	
<p>Payments for temporary cessation maintain fleets in 'moth balls' in order to allow a stock to recover in the short term. Specific conditions on duration and ceilings are part of the regulation. Such measure does make sense if applied for one or possibly two seasons. However, uncertainties of its effectiveness seem high.</p> <p>The regulation neither specifies a maximum payment per beneficiary nor how such maximum should be determined. Potentially, this leaves scope for internal pressure and negotiations within one country. Different levels of compensation in different MS lead to distortion of competition.</p> <p>Support for temporary cessation creates an expectation that 'an improvement is likely', while such likelihood is difficult to demonstrate scientifically / statistically. Recovery plans have worked in some fisheries and have not in other³¹. Since the recovery plans were required (at least partly) due to imbalance between fleets and stock, supporting temporary cessation seems counter-productive for the period after the recovery.</p>	<p>The biological logic of this measure is difficult to evaluate. Recovery of stocks does not only depend on fishing pressure. Reliability of stock-recruitment relations is generally poor. The measure alleviates the immediate needs of the industry, but effect on stocks is uncertain and therefore it is equally uncertain at the outset for how many years the measure would be required.</p>
<i>Investments on board and selectivity</i>	
<p>Most measures foreseen under this heading aim at promotion of ecologically acceptable fishing methods. The imposed conditions are aimed at avoiding higher fishing effort, but do not seem to consider that the firms receiving assistance are favoured over those not receiving it and consequently distort the level playing field. This applies even more strongly to replacement of gears and engines.</p> <p>Support for modernization on board, gear selectivity and measures of common interest must have both either positive or at least neutral environmental effect. Considering that the catching sector is composed of mostly small firms, its ability for an autonomous technological development is rather limited, even more so at present when economic performance is rather poor. Consequently the fisheries sector has not been able to make use of general technological advances. Well targeted actions could be rather beneficial in this respect³². However, there seems to be at least some overlap with axis 3.</p>	<p>Unless the foreseen investments would take place on large scale, affect on stocks is unlikely to be significant.</p> <p>Noticeable ecological impact can be expected only from measures which are taken on large scale, i.e. affecting all vessels involved in a specific fishery. In that case either all vessels or none should be supported (e.g. introduction of the electronic logbook).</p>

³¹ Kenneth Patterson, Implementation of Long Term Management Plans in European Fisheries, presentation at Inter-RAC seminar, Nantes, September 2008

³² A programme operated at present in the Netherlands, which stimulates technological development and cooperation among fishing firms is delivering very promising results.

Table 6. continued

Impact on economic performance	Impact on stocks
<i>Small scale fishing</i>	
<p>Specific and more favourable support to small scale fishing, however sympathetic, implies support to the least efficient producers³³.</p> <p>If support to small scale fishing is supposed to maintain social fabric of rural coastal communities, it could be questioned whether this is an area for CFP or rather for ESF or EFRD. Other measures than those related to fisheries may be more appropriate.</p>	<p>Even the Green paper on the Reform of CFP (EC 163/2009, p.13) recognizes that: ‘...small scale fishing can also be harmful to sensitive coastal habitats and its aggregated impact can be significant with real consequences on the state of the stocks..’.</p>
<i>Socio-economic compensation</i>	
<p>Most actions under this measure are aimed at helping fishermen to find a job in another area or to retire. There are evidently many relatively weak groups on the labour market and it could be questioned whether such social policy, exclusively aimed at fishermen, should be part of the CFP.</p> <p>A specific action offers support to young fishermen to acquired a vessel, although not a new one. Support of 15% of the acquisition price to a maximum of 50,000 euro may have a distortive (upward) affect on the prices of these vessels. Such subsidy should not be required. Over a life span of the vessel of possibly 20 years, the additional costs of depreciation and interest amount to 2,500-3,000 euro / year. If this is of decisive importance to the operation of the enterprise, it can be questioned whether it is really viable. If it is really viable, it does not need the support. If it is not viable, it should not be supported.</p>	<p>The socio-economic compensation has no direct link to maintenance of fish stocks or environment.</p>

Table 6 shows that, although CFP refrains from supporting construction of new vessels, measures under priority axis 1 often distort competition between those who do receive support (in some MS) and those who do not get it (in other MS). Although special support measures may be justified under specific circumstances, institutionalization of support measures over a relatively long period of 7 years creates expectations, not only for that period, but also for the subsequent one.

Regarding axis 4 (development of fisheries areas), it must be questioned whether such measures should fall within the scope of CFP. Several recent studies on regional fisheries dependence³⁴ have demonstrated that only a very small number of communities in the EU can be characterized as ‘fisheries dependent’. Furthermore support to regional reconversion and development should probably start from a broader perspective of regional economic structure, rather than from the fisheries sector alone. In that case EFRD seems to be a more suitable instrument.

The brief evaluation above does not really do justice to the variety of measure and actions supported under EFF. However, in general it can be stated that support measures may be only acceptable if they promote sustainability and do not benefit individual beneficiaries only, but are of common interest. Furthermore, common interest should not stop at national boundaries a single Member State.

³³ P. Salz, CFP – a mission impossible ?, presentation at the XIX EAFE Annual Conference, Malta, 6-8 July 2009. The presentation showed that in 2006, on average vessels <12m have highest costs per tonne of catch and lowest income, turnover and catch per full time employed. A consistent average situation exists in the North Sea, Baltic, Atlantic Area and the Mediterranean Sea. Evidently, exceptions exist to this rule.

³⁴ Framian and LEI, Employment in the fisheries sector: current situation (FISH/2004/4), Report to EC, April 2006 and Framian and Poseidon Ltd, Regional dependency on fisheries, Report to the European Parliament IP/B/PECH/ST/IC/2006-198, July 2007

4.3. Market as means for fisheries management

Apart from administrative regulations, many public policies are based on economic incentives, i.e. taxes and subsidies. Their effectiveness depends on their interaction with market forces. In fisheries the main instrument to put these economic incentives into practice is the European Fisheries Fund. Its impact is discussed in section 4.2. Sections 4.3 and 4.4 present options for CFP measures which would make use of the market forces for the purpose of sustainable exploitation of fish stocks. Such system would generate public income rather than lead to annual expenses.

It is generally agreed that one of the shortcomings of the CFP and its unsatisfactory effectiveness has been the inconsistency of the CFP incentives in at least two areas:

- Conservation policy attempted to reduce fishing pressure, while the structural policy artificially improved economic performance and viability of the fisheries sector in general and of the catching sector in particular.
- CFP has opposed or constrained the incentives of the ‘market’:
 - Subsidies distort competition and reduce speed of adaptation towards higher efficiency.
 - Relative stability has imposed major constraint on EU-wide integration and consolidation of the fisheries sector.
 - Many MS were (and still are) reluctant to introduce transferable property rights (along with parallel responsibilities).
 - Access to fish stocks has been allowed free of charge, which has artificially reduced production costs and created a situation of the ‘tragedy of the commons’.

It can be expected that the CFP can be made more effective and efficient by addressing the above issues and creating greater consistency among the various incentives. Such consistency should be also pursued between the various policy incentives and the market. At the same time it cannot be expected that market alone would be capable of achieving long term sustainable use of the fish stocks. The main reason is that the market prices reflect only short term scarcity, but do not account for possible long term effects nor for externalities. While introduction of individual property rights may lead to an efficient distribution of the available fishing opportunities among the producers, the feasible ‘volume’ of these fishing opportunities (i.e. TAC or effort constraint) must be probably imposed by public authorities to assure long term sustainability.

A significant share of the EFF funds has been allocated to priority axis 1, one of the aims being to reduce structurally the size of the fleet. However, efficiency and effectiveness of decommissioning schemes must be questioned. The market distorting effects of these schemes have been mentioned above.

From the perspective of efficient use of public funds it would be preferable to introduce payments for access, similar to royalties paid by other users of natural resources (e.g. oil and gas industry). Payments for access will increase production costs and force marginal producers to stop fishing. In particular if combined with transferable property rights, these producers will be inclined to sell their rights (which they usually get free of charge!) to their more efficient competitors. Consequently, payments for access combined with property rights would trigger a process of adaptation towards higher efficiency of the sector and smaller size of the fleet through consolidation. The adaptation could be even more rapid and profound if EU-wide trade in fishing rights would be allowed. It is possible to design a system where individual fishing firms pay access fees either directly to different MS or to an EU authority, which subsequently divides these revenues among the MS. It would not only save public resources now spent on decommissioning, but it would even generate additional public income. In this way a greater consistency of public measures and market incentives can be achieved, leading to significantly more efficient and effective policy and industry. Concentration of ownership of fishing rights is probably unavoidable.

4.4. Towards an EU system of fishing rights

The individual MS have introduced a large variety of property rights, with different degrees of tradability³⁵. This applies also to most Baltic MS, where licenses, individual quota, effort allocations and territorial user rights (TURFs) are in force today. The transferability of these rights is still relatively limited. In some MS special requirements are in force regarding the nationality of the owner, to avoid entry of foreigners even if they are EU citizens. Furthermore, measures have been taken to protect small scale fishermen operating in the coastal waters.

Recent experience in Denmark shows that introduction of individual transferable quota can lead to a rather rapid adaptation and consolidation process, without public financial involvement (e.g. decommissioning). If the constraints of relative stability would be lifted, such consolidation process could take place on EU-wide scale, which would be also consistent with the aims of the internal market. Although in longer run, this seems to be an appropriate development, it is necessary to create the proper conditions first. Relative stability implies that the fish stocks belong to the natural resources of each MS. At the moment the benefits accrue to the MS as foreign nationals can be denied the access to exploit these stocks³⁶. It is evidently necessary to assure that the benefits from these natural resources are not 'transferred' to other nations as a result of reflagging or EU-wide trade in quota. Therefore EU-wide transferability of fishing rights between private vessel owners, must be preceded by appropriate arrangements to avoid such 'leakages'. The following sequence of national and EU policy actions would have to be foreseen:

1. All MS introduce a system of user rights in fisheries. It is preferable to refer to user rights, to stress that the actual property remains with the governments. The user rights will have to be defined in at least two separate ways:
 - a. Licenses, i.e. right to hold a specified production capacity, e.g. number of kW or GT. The obligatory registration in the EU fishing vessels register has in fact already created such licenses.
 - b. Exploitation / activity right, related to either amount of fish (in tonnes per species) or amount of fishing effort (kW-days in specific area). These rights will be usually expressed as a percentage share in the national quota or effort allocation.In order to allow EU-trade in these rights, it is preferable if they would be based on similar definitions. This is already the case for the licenses. Similar arrangements can be achieved regarding the exploitation rights. This does not have to compromise the principle that legislation on property is still an exclusive domain of the MS.
2. Trade in the user rights on national level will be allowed, without nationality restrictions. This means that foreign interests would be allowed to set up a fishing company in a specific MS and operate under the legislation of that state, in other words the constraints of the economic link would be lifted.
3. A system of royalties needs to be introduced on EU-wide scale in order to avoid distortions of competition, where fishermen in one MS are obliged to pay for access, while in another MS access would still be free of charge. The system of royalties assures that each MS would be able to collect the net benefit from its natural resource in the sea. The same system is applied in exploitation of other natural resources. Payment for access must be introduced before EU-wide trade in fishing rights would be allowed, as otherwise private firms would be allowed to sell public resources to interests in another country.
4. Full EU-wide tradability of fishing rights would be allowed. This would make it possible that one vessel would hold fishing rights from several MS and pay royalties accordingly. The operation of such system may require the creation of a clearing house, which would make supply and demand of fishing rights visible, possibly auction them, maintain records of who owns what and possibly collect the royalty payments.

³⁵ MRAG et. al., An analysis of existing Rights-Based Management (RBM) instruments in Member States and on setting up best practices in the EU, Report to the EC (FISH/2007/03), February 2009

³⁶ Reflagging practices of early 1990ies have been curbed by the introduction of 'economic link' requirements.

Introduction of such a system would lead undoubtedly to a significantly more efficient fishing industry. At the same time it is necessary to recognise and accept its consequences:

- Consolidation of the fishing sector will lead to a smaller number of larger (multi-vessel) companies.
- The small scale coastal fishermen may be further marginalized. Although they are not obliged to sell their fishing rights, continuity of small firms is particularly weak at the moment of transfer from one generation to the next and it is likely that at that moment larger companies would be capable to pay a higher price for the fishing rights than another 'coastal fisherman'.
- Due to significant differences in income levels between new and old MS, it seems likely that companies from the old MS would buy-out the fishing rights in the new MS. This is particularly relevant for the Baltic Sea area.

Similar processes have been already going on in most other sectors of the EU (and global) economy. It does not seem realistic that they could be prevented in the fisheries sector.

An additional argument in favour of transferable fishing rights and payments for access is that these could be equally applied to professional and non-professional (leisure) fishermen. It is not unlikely that the economic spin-off of some fisheries could be significantly increased if they would be primarily exploited by sport fishermen.

Introduction of tradable user rights along with royalty payments probably cannot be achieved on a regional basis alone. Attempts to create such system e.g. in the Baltic Sea would put the traditional Baltic fishermen in a disadvantage (royalty payment) compared to fishermen in other areas.

5. FUTURE OF SUBSIDIES

5.1. Future policy context and role of the market

Since the last review of the CFP, the European Union, its policies and the global context have undergone significant changes which are likely to be reflected in the fisheries policies of the next decade. The main drivers of the CFP and structural funds will probably be:

- Lisbon agenda, aiming at *'the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment by 2010.'*, although admittedly achievement of this goals does not seem likely, but it remains relevant in the long run;
- Marine Strategy Framework Directive, with the aim to protect and preserve marine environment and integrate marine related policies;
- Habitat regulation and Natura 2000, leading to creation of marine protected areas;
- Expansion of the Union to 27 MS, increasing the diversity of interests;
- The present credit crisis, leading to increased public debts and greater selectivity on public expenditure;
- Continued negotiations under the Doha round;
- On-going critical discussion of EU subsidies in agriculture and fisheries, couples with the macro-economic need to cut public budgets.

All these developments will certainly lead to much more selective and better targeted support policies, with significantly less resources. It seems most unlikely that future CFP will be just a continuation of the previous 30 years with minor adaptations.

Since 2002 it has been increasingly recognized that fisheries have to be viewed as one integrated system of complex interactions between 'men and nature'. It has been recognized that healthy environment in general and fish stocks in particular are unlikely to be achieved without positive cooperation among all stakeholders. It has been also recognized that fisheries management is primarily about guiding human behaviour towards long term sustainability within the constraints imposed by the nature. This is a major shift from earlier approaches where it was attempted to manage stocks through administrative regulations, based on biologic advice and political decisions and quite separately from that assist the fishing industry through subsidies and protective measures. Once the intricacy of the system is appreciated, it must be concluded that neither of the two components (men and nature) can take precedence over each other. While fish stocks are the basis for long term economic sustainability of the sector, efficient, responsible and accountable fishing sector is a prerequisite for healthy marine environment.³⁷ The policy primarily affects the behaviour of fishermen and only through their actions can it promote the health of fish stock. Therefore pursuit of efficiency, responsibility and accountability should become the benchmark of future policies. Efficiency can be only achieved by elimination or better targeting and selectivity of subsidies and greater reliance on market (consistent) incentives within public policies providing long term guidance. Responsibility and accountability are governance issues, not addressed in this document.

It must be pointed out that reliance on market incentives requires a new approach to the solutions of fisheries management. Until present, the CFP has pursued policies which attempted to create a desired 'sustainable structure' in terms of size of stocks and fleets. However, as the measures were relatively short term (annual TACs, decommissioning schemes open for several months, etc.), achieving this sustainable structure remained rather elusive. Reliance on market incentives implies that policies focus on directing the 'process of change', in the expectation that the process goes in the desired direction, but without strictly specifying what the future situation should look like. In this way CFP will become much more consistent with other policies and processes in the economy and society at large. However, if this 'paradigm shift' and its consequences are not fully accepted - e.g. in terms of short and medium term fluctuations – and the policy is not tailored accordingly, new inconsistencies are likely arise.

³⁷ P. Salz, Economics of stock recovery: ideals and illusions, presentation at Inter-RAC seminar, Nantes 11-12.9.2008

5.2. Defining acceptable subsidies

On the basis of the arguments above it can be concluded that it is desirable to re-evaluate the role of subsidies and design an approach for transition to meet these criteria. The desirability of subsidies in the future should be evaluated on the basis of four criteria in the three core areas:

1. Environment: promoting sustainability, i.e. balance between fishing capacity and fishing opportunities, including environmental impact;
2. Economics: enhancing market and level playing field;
3. Policy: consistency with other policy measures and market incentives;
4. Policy: effectiveness and efficiency.

It should be recognized that at present the fisheries sector is highly atomized (many small producers), not very well organized and on average the economic performance is marginal (i.e. aggregate profits are around zero). Consequently, it is not realistic to expect that the sector will be able to generate resource for new initiatives, e.g. technological development of environmentally acceptable fishing techniques. In this situation public support to enhance specific developments may produce positive affects for the sector as well as for the society. Table 7 outlines the nature of acceptable support.

Table 7. Delineation of acceptable support

Criteria	Support should:	Support should not:
Environment	<ul style="list-style-type: none"> – Reduce environmental impact of the sector on target and non-target species and on environment as a whole; – Incorporate long term considerations; 	<ul style="list-style-type: none"> – Increase fishing effort;
Economics	<ul style="list-style-type: none"> – Promote market transparency; – Pursue synergy with existing market incentives; – Benefit all producers proportionately; – Create conditions for efficient entrepreneurship; 	<ul style="list-style-type: none"> – Be directed at individual producers; – Benefit specific groups over others, providing them competitive advantage, on national or international level; – Should not affect profitability;
Policy consistency	<ul style="list-style-type: none"> – Be consistent with and strengthen other parts of the CFP (and other policies), i.e. the starting point must be identical problem definitions, objectives, evaluation of policy options and pursuit of same impacts; – Exploit synergies and be consistent with market incentives; 	<ul style="list-style-type: none"> – Create incentives which are inconsistent with other parts of CFP (or other policies) in terms of policy options and pursued impacts; – Attempt to overrule market forces;
Policy efficiency	<ul style="list-style-type: none"> – Consider whether alternative policies, with similar affects, but at lower public costs can be identified; – Be limited in scope and time. 	<ul style="list-style-type: none"> – Be based on short term environmental, economic or political considerations;

Acceptable support measures should score positively on all criteria. Furthermore, as with all other policy measures, introduction of new types of subsidies in the next programming period should be subject of Impact Assessment, according to the established Guidelines³⁸, this means that their expected impact should be SMART³⁹.

On the basis of the above criteria, the existing subsidies can be briefly evaluated as follows:

- EFF axis 1 – most foreseen measures are questionable, as they are aimed at individual beneficiaries, distorting the competitive positions;
- EFF axis 2 – is not a topic in the present document, but a similar comment applies as for axis 1.

³⁸ SEC(2005)791 Impact Assessment Guidelines

³⁹ SMART = specific, measurable, accepted, realistic and time dependent.

- EFF axis 3 – acceptable as long as ‘intangible’ in nature and does not favor certain groups over others. Investments in ports or reassignment of vessels seem questionable.
- EFF axis 4 – definition of ‘fisheries areas’ is rather vague. There is an implicit overlap with activities of EFRD. Fisheries cannot be a starting point for reconversion of the regional economy. The ambition of this axis goes beyond CFP.
- *De minimis* – there does not seem to be any justification for this kind of support, even when adverse economic conditions occur. The fisheries sector must develop sufficient resilience to deal with temporary problems.
- EAGF – Price support gives the wrong incentive and weakens the attempts to adapt fishing strategies to market demand.
- EFRD and ESF – available information is insufficiently ‘fisheries specific’.
- Third countries – payments for access benefit only a small number of firms, which should be willing to cover such costs themselves.
- Management costs – public funding is justified as long as it is in line with public efforts in other environmental areas.
- Market protection – benefits certain groups over others (which is illustrated in opposing positions of catching and processing sectors). It is inconsistent with global attempts towards free trade within WTO.

Table 8 presents an overall evaluation. Clearly, some measures and actions may deviate from this ‘average’ picture.

Table 8. Summary evaluation of various support measures in relation to the four criteria

	Environment	Economics	Policy consistency	Policy efficiency
EFF axis 1	+/-	-	-	-
EFF axis 2	+/-	-	-	-
EFF axis 3	+/-	+/-	+/-	+/-
EFF axis 4	+/-	+/-	-	-
<i>De minimis</i>	-	-	-	-
EAGF	-	-	-	-
EFRD / ESF				
Third countries	-	-	-	-
Management costs	+/-	+/-	+/-	+/-
Market protection	-	-	-	-

5.3. Options for transition

On the basis of the above analysis it can be concluded that most presently existing subsidies should be phased out, or replaced by support which is better targeted at specific needs. Abrupt abolishing of subsidies even between the present and the following (2014-2020) programming period does not seem feasible. In order to eliminate undesirable subsidies and focus on the positive incentives, without market distortions, the support measures may be divided into four groups:

1. Group 1 - Full elimination should be pursued by 2014;
2. Group 2 - Gradual phasing out during 2014-2020;
3. Group 3 - Positive incentives;
4. Group 4 - Measures to be transferred to other structural funds.

Actions under EFF and other programmes could be sub-divided into the four groups as indicated in table 9. Table 9 is presented primarily as an example. A more in depth analysis will be required to assess the merits of different public support measures.

Table 9. Sub-division of support measures in Groups 1, 2 and 3 (in relation to the catching sector only⁴⁰)

Measures under EFF	
Group 1	Group 2
<ul style="list-style-type: none"> – Decommissioning schemes; – First replacement of gear; – Fishing ports and shelters; – Development of new markets; – Modification of vessels for other activities; 	<ul style="list-style-type: none"> – Modernization, independently of purpose; – Gear selectivity; – Compliance with legal requirements; – Support to small scale fisheries; – Support to young fishermen; – Creation of POs; – Quality and food safety; – Working conditions; – Collection of lost gear; – Certification and labeling;
Group 3	Group 4
<ul style="list-style-type: none"> – Cooperation between science and sector in areas of technology and management, incl. stock assessment and environmental monitoring (incl. use of FP8 research funds); – Management of resources, incl. Natura 2000; – Development of new technologies to reduce discards, environmental impact or improve energy efficiency, but not supporting their introductions. – Promotion of awareness in areas of sustainability, e.g. through education ; – Improving quality of management through greater involvement of the industry in policy preparation; – Implementation of infrastructure for ‘market assisted management’ (instruments for trade in fishing rights and collection of payments for access, clearing house, etc.) 	<ul style="list-style-type: none"> – Socio-economic measures to be addressed by ESF; – Axis 4 to be brought under EFRD;
Other measures	
Group 1	Group 3
<ul style="list-style-type: none"> – Payments for access to 3rd countries; – Support under CMO / EAGF; – <i>De minimis</i> 	<ul style="list-style-type: none"> – Management, research and enforcement.

Elimination of Group 1 measures

Group 1 measures should be abolished on the grounds of the argument that the support goes to individual beneficiaries or small groups (firms or individuals) and as such it often distorts competition.

EFF is up for mid-term review in 2010. The Group 1 measures should be scrutinized during the mid-term review in relation to their efficiency, effectiveness, consistency with other policies and the market distorting impact. On the basis of the results of this evaluation, it can be decided in 2011 to abolish some of these subsidies directly, or at the end of 2013 at the latest. In this way, the companies concerned may have 2-3 years to prepare themselves for the new situation.

Phasing out of Group 2 measures

Public support to Group 2 measures can be phased out in the years 2014-2020 as follows:

1. Measures to be supported should be well defined.
2. Support should be made available only under the condition of substantial co-financing by the beneficiaries. The rate of co-financing may increase with years, arguing that improving conditions of the sector allow for its higher financial contribution.

⁴⁰ Other sectors (fish processing and aquaculture) are outside the scope of this document.

3. Total amount of the resources allocated to each measure may be reduced as the period progresses, possibly down to zero by 2020. This may be justified as supported actions produce desired lasting effect, may become superfluous and the sector is increasingly expected to assume its own responsibility and increase its contribution to such actions (point 2).

The MS, when preparing their Operational Programmes, will be required to follow the above principles and communicate clearly to the stakeholders how this process of phasing out will take place.

Positive incentives – Group 3 measures

Positive incentives regard creation of conditions for improvements of productivity, efficiency and quality of entrepreneurship in the fisheries sector, in order to improve its resilience to adverse developments of stocks or markets. For this purpose, rights and responsibilities of the various stakeholders must be formulated explicitly so that they can act accordingly.

These measures place fisheries in a broader context, recognizing the public tasks and responsibilities of the governments (although where they lie precisely is evidently a political decision). These measures should primarily focus on fostering cooperation among various stakeholders to achieve synergies, increase mutual trust and create conditions for sustainable entrepreneurship in catching sector. The measures and actions will be primarily in the area of ‘common interest’. Detailed design and implementation of positive incentives will require further intensified cooperation between industry, policy makers and research organizations.

Transfer to EFRD and ESF – Group 4 measures

These are measures, which take place in a broader context of regional and social development and for which expertise beyond fisheries is required. The main argument against such transfer is that ‘fisheries interests will be overruled by all other interests. However, this points precisely to the core of the problem. The horizon of potential regional development is much wider than what can be seen from fisheries perspective and same applies to social development. For these reasons general support to fisheries dependent areas should be placed in a broader context.

5.4. Regionalized approach

CFP and EU legislation provide a general framework within which the MS have a variety of freedoms to pursue their own priorities and to adapt the policy to local conditions. At present CFP contains various ‘regionally defined’ measures:

- Technical measures are linked to specific fisheries;
- Stock management and recovery plans apply to regionally defined stocks;
- TACs are not applied in the Mediterranean⁴¹;
- Each MS sets its own priorities regarding EFF funds.

Regionalization of the CFP has been further strengthened by setting up the RACs, which assume an increasingly important advisory role, the Baltic RAC being one of the most active. EFF supports trans-boundary cooperation, precisely to strengthen the regional integration.

Therefore, in principle regionalized approach regarding the provision of support to the fisheries sector seems possible, as long as it remains within the EU legislative framework and the MS concerned achieve the required consensus.

⁴¹ With the exception of bluefin tuna.

There is ample scope for regional cooperation under the measures classified as group 3, i.e. 'positive incentives':

- Presently on-going initiatives, e.g. the Marifish⁴² and EFARO⁴³ projects aiming at better international; cooperation in the area of marine research, need to be continued and strengthened, which can be also achieved on the level of a region like the Baltic.
- Technological development of environmentally friendly fishing gear requires significant investments over many years, unlikely to be generated by the industry alone. In view of the regional similarities of the fisheries, trans-boundary regional cooperation in this area should make such development feasible through sharing the burden.
- Similar argument applies to the creation of the needed infrastructure. At the moment individual municipalities compete with each other for the creation of the most attractive facilities, but with the decreasing size of the fishing sector, this is likely to lead to waste of resources. Open minded cooperation and recognition that such investments must also make a positive financial return offer opportunities for broad regional cooperation

Last but not least, more intensive interaction among stakeholders is most relevant on regional level where they share same problems, but also similar attitudes and one cultural heritage.

LIST OF ABBREVIATIONS

CFP	- Common Fisheries Policy
EAFE	- European Association of Fisheries Economists
EAGF	- European Agricultural Guarantee Fund
EFRD	- European Fund for Regional Development
ESF	- European Social Fund
SME	- Small and medium enterprises
FIFG	- Financial Instrument for Fisheries Guidance
FP	- Framework Programme for scientific research
MAGP	- Multi-annual Guidance Programme

⁴²Marifish aims at Strengthening the links between European marine fisheries science and fisheries management, <http://www.marifish.net/>

⁴³ The European Fisheries and Aquaculture Research Organisation (EFARO) is an association of the Directors of the main European Research Institutes involved in fisheries, <http://www.efaro.eu/>